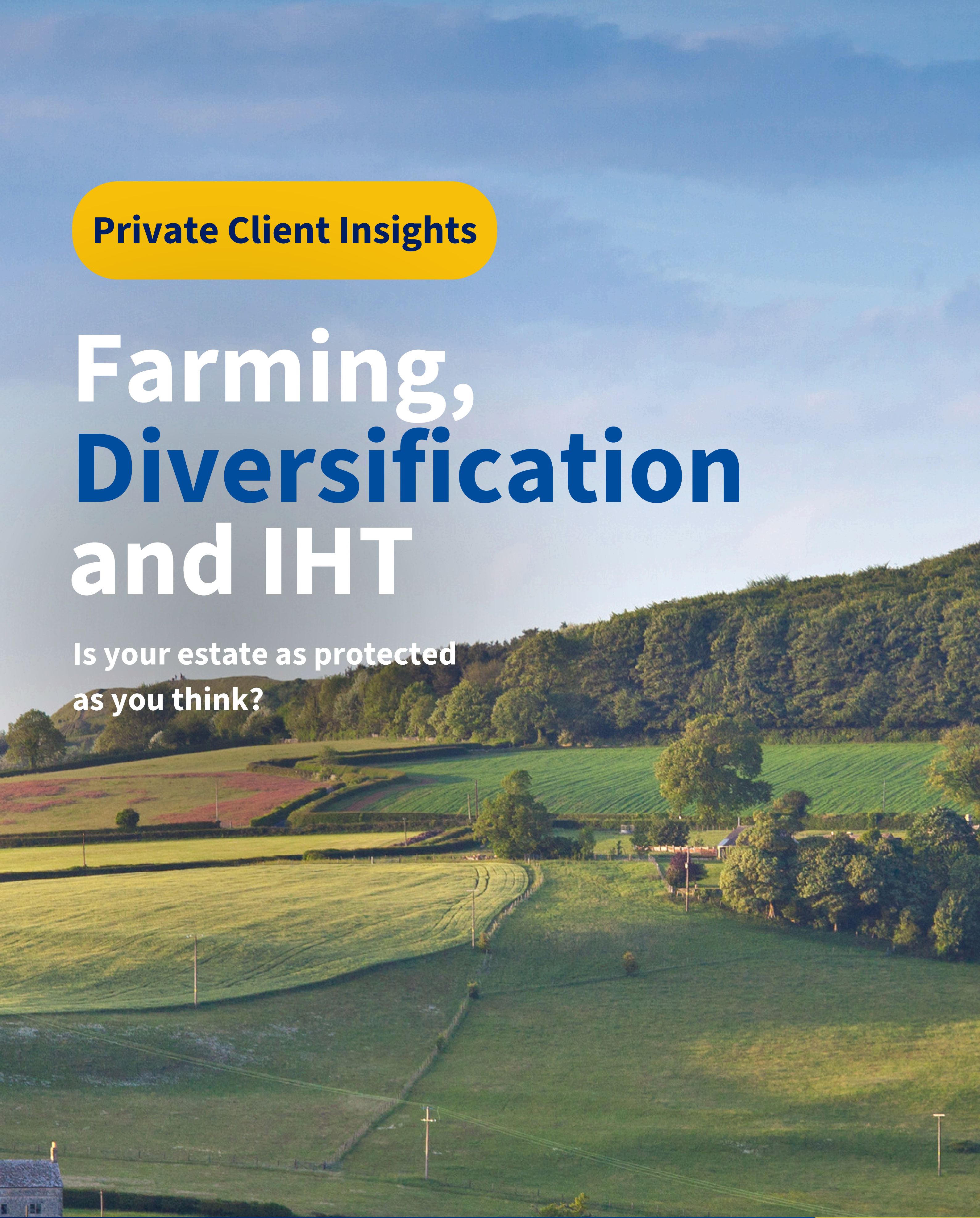


Private Client Insights

# Farming, Diversification and IHT

**Is your estate as protected as you think?**

Forrester Boyd

CHARTERED ACCOUNTANTS

For generations, Agricultural Relief (AR) and Business Relief (BR) have played an important role in allowing farming businesses to pass from one generation to the next without an Inheritance Tax bill forcing the sale of assets.

But there is a potentially dangerous assumption sitting behind many succession plans: we are a farming family, so the farm will qualify.

That assumption deserves closer examination.

Changes introduced on 6 April 2026 mean that the amount of qualifying agricultural and business property eligible for 100% relief is now limited. At the same time, the way many modern farms operate bears little resemblance to the traditional farming business of a generation ago.

Diversification, renewable energy, property letting, tourism and increasingly complex ownership structures can all affect the availability of relief.

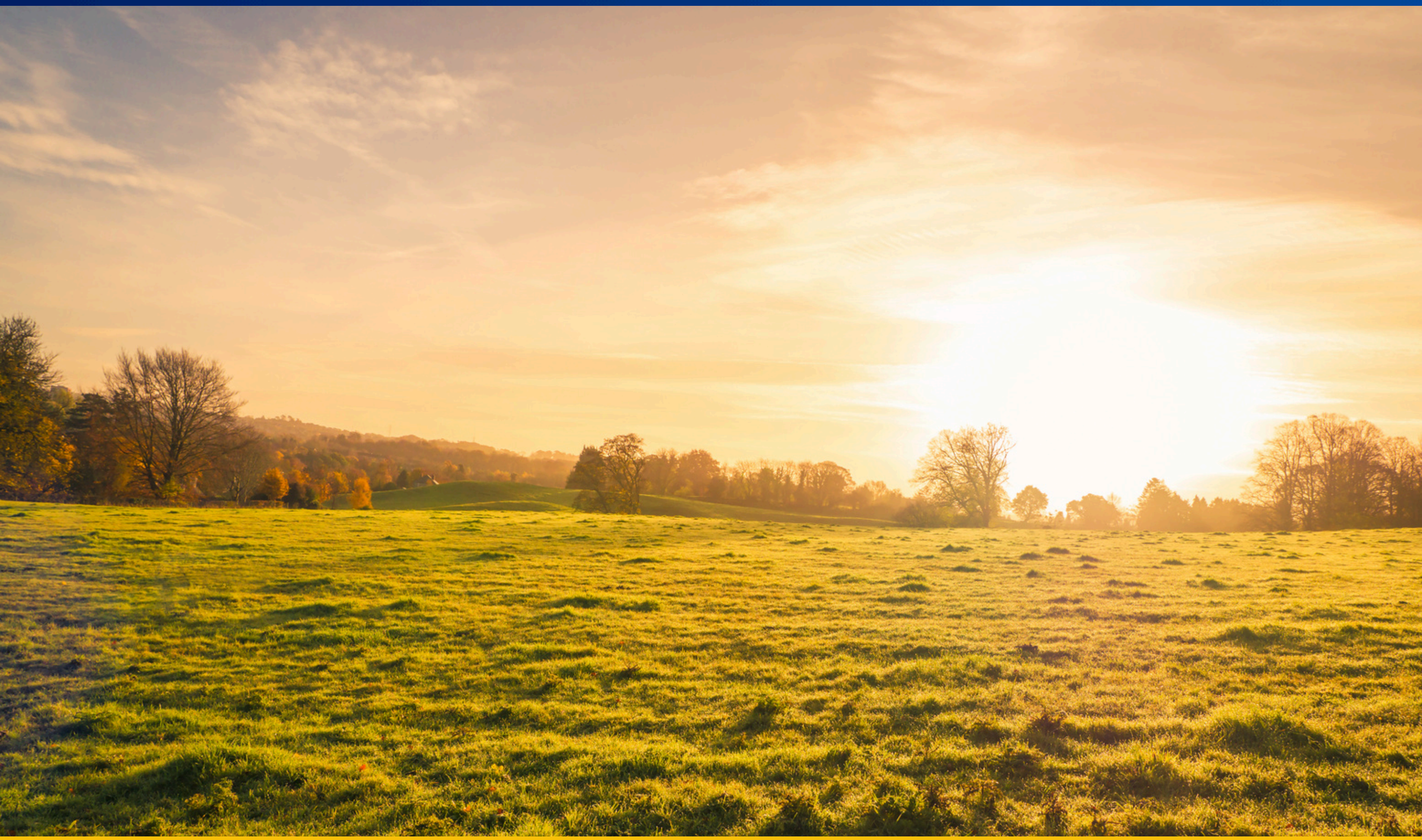
For farming families thinking about succession, the question is no longer simply **"Do we own a farm?"**

It is **"What do we own, how is it being used, who owns it and what relief would actually be available if it were transferred?"**

# Modern Farming has Changed

One of the biggest risks is assuming that because relief has historically been associated with farming, it will automatically apply to everything within a modern farming estate. Farms have changed considerably. The tax position needs to be considered against the business and ownership structure that exists today, not the farm as it may have operated 20 years ago.

**Vicky Prior, Tax Partner**



# What changed in April 2026?

Since 6 April 2026, a £2.5 million allowance applies to the combined value of qualifying agricultural and business property eligible for relief at 100%.

Where qualifying property exceeds the available £2.5 million allowance, the excess generally receives relief at 50%.

This does not mean that value above £2.5 million suddenly faces Inheritance Tax at 40%. Where 50% relief applies, the effective Inheritance Tax rate on that qualifying value can be up to 20%.

There is also an important provision for married couples and civil partners. Any unused £2.5 million allowance can be transferred to a surviving spouse or civil partner. This means a surviving spouse or civil partner could potentially have an allowance of up to £5 million available against qualifying agricultural and business property.

These allowances sit alongside other relevant Inheritance Tax exemptions and allowances, depending on individual circumstances.

The changes make understanding whether assets genuinely qualify for AR or BR increasingly important.

## AR and BR are not the same thing

Although the two reliefs are frequently discussed together, they protect different types of value and have different qualifying conditions.

Agricultural Relief applies to the agricultural value of qualifying agricultural property. This can include agricultural land or pasture and buildings used in connection with agricultural activity, subject to the relevant conditions.

An important distinction is that AR relates to agricultural value, which may not necessarily be the same as the full market value of the property.

Business Relief, meanwhile, can apply to qualifying businesses, interests in businesses and certain business assets.

For many farming families, both reliefs can therefore be relevant. Agricultural land and buildings may qualify for AR while BR may potentially protect other qualifying business value.

The difficulty comes when the nature of the farm begins to change.

# Diversification can change the tax picture

Diversification is now part of everyday commercial life for many farming businesses.

A farm may generate income from holiday accommodation, renewable energy projects, commercial storage, property letting, events, a farm shop or hospitality alongside its traditional agricultural activity.

These decisions can make complete commercial sense. They can reduce reliance on farming income and create new revenue streams from existing land and buildings.

But a good commercial decision does not automatically produce a good Inheritance Tax outcome.

Consider a traditional agricultural building converted into holiday accommodation.

Before conversion, its use may have supported a claim for Agricultural Relief. Once its purpose changes, that position may change too.

Similarly, land leased for renewable energy or buildings let to third parties may require a different analysis from land being actively farmed.

There is a second issue.

Diversification or development can increase the market value of land considerably. Because Agricultural Relief is concerned with agricultural value, there can be a gap between what an asset is worth on the open market and the value covered by AR.

That makes the potential availability of Business Relief particularly important.

# When diversification becomes investment

Business Relief is sometimes regarded as a second line of defence where Agricultural Relief does not cover the full value of an asset.

But BR has its own qualifying conditions.

In broad terms, businesses consisting wholly or mainly of dealing in securities, stocks or shares, land or buildings or making or holding investments are excluded from Business Relief.

That distinction can become particularly important in a diversified farming business.

Importantly, this assessment is not based on income alone. The business needs to be considered as a whole, including factors such as its activities, assets, turnover and the time spent managing different parts of the business.

Running a farm shop, providing services or operating a hospitality business can look very different for BR purposes from receiving relatively passive rental income from property.

The issue is not necessarily diversification itself. It is **what the diversified activity actually involves and how it affects the character of the wider business.**

A farm can still look and feel like a farming business to the family running it while its activities, assets and income have gradually changed the tax analysis.

That is why diversification decisions should not be considered in isolation.

# Ownership matters as much as activity

There is another layer which can easily be overlooked: who actually owns each asset?

Modern farming businesses frequently involve a mixture of:

- land owned personally by individual family members
- partnership assets
- trading companies
- trusts
- jointly owned property
- diversified activities operated through separate businesses.

There may be perfectly sound commercial or historic reasons for these arrangements. But over several generations, the relationship between ownership and business activity can become increasingly complicated. The person who owns an asset is not necessarily the person or entity carrying on the activity that uses it. That distinction can affect the relief available.

A useful succession planning exercise is therefore to map the estate rather than simply value it.

- Who owns the land?
- Who occupies it?
- What is each parcel of land or building actually used for?
- Which entity receives the income?
- Where does the diversified activity sit?
- What would happen to each asset for Inheritance Tax purposes if its owner died today?

The answers can reveal a very different picture from the one the family expects.

# The £2.5 million allowance makes qualification more important, not less

It might be tempting to focus solely on whether a farming estate exceeds the new £2.5 million 100% relief allowance.

That risks missing the bigger issue.

Before the allowance is relevant, you still need to establish whether the property qualifies for relief in the first place.

An asset which does not satisfy the conditions for Agricultural Relief or Business Relief does not simply fall into the 50% relief category because the £2.5 million allowance has been exceeded. It may receive no AR or BR at all.

For families with substantial land values, diversified activities or complex ownership arrangements, that distinction can have significant consequences.

This is why succession planning needs to go beyond calculating a potential tax bill.

# Succession planning should start before succession

Farming succession rarely happens neatly at one moment in time.

Businesses evolve. Children join the partnership. Parents reduce their involvement. Buildings acquire new uses. Land is let. Renewable projects are agreed. Companies are established and assets that were once central to agricultural activity become part of a diversified enterprise.

Each decision can alter the eventual succession position.

**Vicky explains:**

The best time to discover that the structure of the farm could create an Inheritance Tax problem is not when somebody has died.

Families need time to understand their position and, where appropriate, consider their options. That is why we increasingly see succession planning as an ongoing conversation rather than a one-off tax exercise.

That conversation should extend beyond tax.

Who wants to continue the business? Is treating children equally the same as treating them fairly? Where will the retiring generation's income come from? Which assets need to remain together for the business to be viable? Would an eventual tax liability create a cash requirement that the business could realistically meet?

The tax position is one part of a much wider family and commercial discussion.

# Five questions worth asking now

For farming families reviewing their arrangements following the April 2026 changes, five questions provide a useful starting point:

1. **What do we actually own and what is it worth?**
2. **How is each asset being used today?**
3. **Which activities are agricultural, which are trading and which may be regarded as investment?**
4. **Does ownership of the assets align with the businesses using them?**
5. **If succession happened today, what AR and BR could we reasonably expect to claim?**

If the answer to the final question is simply “we've always assumed the farm would be covered”, it may be time for a more detailed review.

# A farm can change faster than its succession plan

Diversification will continue to be an important part of making farming businesses resilient and commercially sustainable. The message is not that farms should avoid it.

Rather, tax and succession consequences should form part of the decision-making process.

The farm that eventually passes to the next generation may be very different from the one the current generation inherited.

The succession plan needs to keep pace.

## Speak To Our Team

Vicky Prior is a Tax Specialist at Forrester Boyd. Vicky and our tax team work with individuals, families and business owners on Inheritance Tax, estate and succession planning.

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*The right outcome starts with the right advice*

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Sources and further reading
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